

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE BOARD OF PATENT APPEALS AND INTERFERENCES

In re Application of : Maa, Shalong (*Ex parte*)

Appeal No.: 2001-0908 (*Ex parte*)

Application No. : 08/833,342

Art Unit : 3721 / 3713

Filing Date : April 4, 1997

For : "Computer-Controlled Talking Figure Toy with Animated Features"

Board of Patent Appeals and Interferences
Assistant Commissioner for Patents
Washington, D.C. 20231

Dear Sir:

PETITION TO MAKE THE APPLICATION SPECIAL UNDER 37 C.F.R. § 1.102

1. In regarding the above-identified patent application / appeal, the undersigned Applicant / Appellant respectfully petition the Board of Patent Appeals and Interferences (the "BOARD") and the Commissioner to make the Application special, on the ground of "Prospective Manufacture", under 37 C.F.R. § 1.102, and pursuant to M.P.E.P. § 708.02-I and § 1204, so as to expedite the Appeal proceeding.

I. APPLICANT/APPELLANT'S STATEMENTS

2. In supporting the present petition, Applicant / Appellant makes the following statements, upon personal knowledge and experience, and pursuant to M.P.E.P. § 708.02-I, with respect to prospective manufacture of the products / services described in the above-identified patent application:

2.1. If a patent is granted on the Application, sufficient equity capital investment and facilities will be made available to manufacture the invention in quantity; The nature of the production would be *contract manufacturing*; The "SMA-II.COM BUSINESS PLAN" attached hereto (EXHIBIT-A) provides detailed descriptions of the Company's (SMA International, Inc., or SMA-II, which is to be reincorporated in Delaware) Organizational, Marketing, and Financial Plans; The projected "Progress Payment" data for said contract manufacturing are provided in

subsection 8.1 of the "FINANCIAL DOCUMENTS" section of said BUSINESS PLAN (EXHIBIT-A); If a patent is granted on the Application, it will serve as the intellectual foundation for the Company's entire business operation, so as to obtain the equity capital investment needed for said manufacturing;

- 2.2. Unless a patent is granted on the Application, the aforesaid manufacturing will not be fulfilled, since the Company will not be able to obtain said equity capital investment to manufacture the invention in quantity; As described in the BUSINESS PLAN (EXHIBIT-A), because of the Company's "B2C e-Service" business structure and the product's relatively broad marketing mix, substantial equity capital investments are needed for fabricating and servicing the hardware and software components of the invention; The latest revision of the BUSINESS PLAN (EXHIBIT-A) requires a first-round financing of \$28,000,000, which is to be obtained from private investors and large venture capital companies; Because of its nature and large volume needed, such investment can not be obtained unless the investors are convinced of the product's the intellectual foundation and protection, i.e., a granted patent is essential for said investment and manufacturing (Applicant has been seeking said equity capital investment since 1996 (EXHIBIT-A), after filing the provisional patent application);
- 2.3. In accordance with the nature of the contractor market in the United States for toy manufacturing, the prospective manufacturer of the aforesaid contract manufacturing will obligate itself to manufacture the invention in quantity, subject to detailed contract negotiation and agreement between the parties, and such contract manufacturing will become available in the market immediately should the Company obtains sufficient funds, which will be dependent upon issuance of the patent so as to protect said equity capital investment;
- 2.4. Applicant / Appellant has made careful and thorough searches of the prior art before and after filing the non-provisional patent application, and believes that the prior art references cited in the Examiners' Office Actions are most closely related to the subject matter of the present application / appeal.

II. APPLICANT/APPELLANT'S DILIGENCE

3. In accordance with M.P.E.P. § 1204, an applicant's diligent prosecution is essential to a favorable decision on a petition to make special. The undersigned Applicant / Appellant respectfully submits that Applicant/Appellant's exercise of due care and diligence in prosecution and advancing the application / appeal proceedings is shown throughout the proceedings, as evidenced by Applicant's many written and telephone inquiries about the status of the application and previous petitions for

requesting advancement of the application / appeal proceedings (the BOARD's previous "DECISION ON PETITION", entered as Paper No. 37 and dated 04/03/2001, has been received).

III. THE APPLICATION BEING PENDING FIVE YEARS

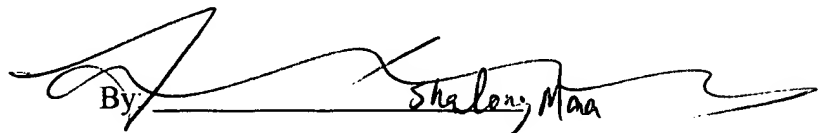
4. According to M.P.E.P. § 707.02, any application that has been pending five (5) years is to be considered "special". The present application claims the benefit of a provisional patent application, under 35 U.S.C. § 119(e), which was accorded an Application No. 60/014,905 and a filing date of 04/05/1996. Thus, the entire pendency of the present application has exceeded five (5) years.

IV. CONCLUSION

5. For the foregoing reasons, and pursuant to 37 C.F.R. § 1.102, it is respectfully requested that "special" status be accorded to the present application / appeal; so as to have the application / appeal advanced out of turn for further action by the BOARD.

6. The required petition fee pursuant to 37 C.F.R. § 1.102(d) and § 1.17(h) is enclosed in this communication. Should any balance be due in connection with paper, please inform the undersigned Applicant / Appellant at the Office's earliest convenience.

Respectfully submitted,

By  Shalong Maa

MAA, SHALONG
(Print name of person signing)

Date: 04/26/2001

SMA International, Inc.
P.O. Box 202930
Arlington, TX 76006

P.S. : Please be aware that Applicant's Correspondence Address has been changed, as indicated above (the "CHANGE OF CORRESPONDENCE ADDRESS" form, as attached hereto as EXHIBIT-B, has already been submitted to the BOARD)

SMA-II.COM Business Plan

Plan prepared July 2000 by

Shalong Maa, Ph.D.

P.O. Box 200503, Arlington, TX 76006
www.smaii.com // ShalongMaa@smaii.com

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I. EXECUTIVE SUMMARY

1. Statement of Purpose

This Business Plan is intended for prospective investors to invest in fabricating, marketing, distributing, and servicing the products and services described herein and in the pending patent application entitled "Computer-Controlled Talking Figure Toy with Animated Features" (Regular Patent Application filed April 4, 1997, Application No. 08/833,342). "SMA-II.COM, Inc." is the proposed name for the company to be reincorporated in year 2000 (Corporate Office location is negotiable; "SMA International, Inc." is the name of the current company). "B2C Streaming-content Service" is the Company's basic business structure.

The Company is seeking equity capital in the amount of \$28,000,000. (tentative) for the purpose of start-up operations for the first 25-30 months before commencement of the Company's IPO proceeding. Funding is needed in time for general administration, web site and technology development, marketing research, initial streaming content development, and contract manufacture operations during the first 12 to 18 months, and for initial marketing expenses thereafter. Repayment of any loan and interest and return on investment (annual rates of up to 25-35%) will not begin until revenues are realized, and can be secured by percentage of business to be held as collateral. The Company will realize positive cash flow during the third fiscal year.

2. Products, Services and Business Concept

As mentioned above, "B2C e-Service" is the Company's basic business structure featuring Incorporator's invention of Internet-enabled animated talking Doll or "e-Doll". The product integrates elaborate sound system and mechanical-control functionality of an Internet computer into a physical doll to make the doll "live", employing simple and reliable electro-mechanical technologies, and thus, provides a new Internet-enabled interactive entertainment / education media for young children. [Incorporator also possesses business methods for general online marketing (provisional patent application has been filed) which, Incorporator believes, is more efficient and profitable than the conventional "dot-com" marketing model.]

Distribution of hardware components of the e-Doll will facilitate sales and distribution, through the Company's Studio site servers, of the product's Interactive Digital Streaming Contents. Thus, the Company's revenue model will comprise sales of the e-Doll's hardware components in combination with periodic membership fees for the digital streaming content services.

3. Competitive Assessment and Market Opportunity

In accordance with prosecution of the pending patent application for the e-Doll, there had been no prior art proclamation of digitally-controlled physical doll before Incorporator's Invention. Incorporator has been making every endeavor to obtain broadest possible (patent) Claims for the Invention. Thus, Incorporator does not expect any direct competition for the Company's primary products, the e-Dolls, and the associated digital streaming content services.

The company's primary target customer groups are U.S. households having young children and consumers having home computers and Internet access. Thus, the product will have market potential of at least 20 millions household members. Intelligent design of interactive features and functionality of the e-Doll's digital streaming contents will be the key for the product's Market penetrations, which are projected in this Plan as 2.5%, 7.5% and 15% for the first three sales seasons. Since the product is not expected to have direct competition, actual market penetration will be largely dependent on working capital available for contract manufacturing, initial marketing and content-development expenditures.

4. Conclusion

Incorporator acknowledges that the Company is still at its very early stage and its current weakness in management, and thus, may need help from the investors in building a strong management team. Nevertheless, Incorporator would like the Investors to focus on the quality of the opportunity and the unique business concept / model, which will enable the Company to establish leadership position in e-entertainment / e-education segments of the industry. Furthermore, Incorporator has complete confidence in his management ability and ability of defining business strategy and making decisions. If deemed necessary, for the purpose of investors' evaluation and satisfaction, Incorporator is willing to work under close supervision of the Investors with minimal funding for a period of time before commencement of equity deposits and, hence, full business operation as proposed in this Plan.

Actual performance of the business operation will be measured against the financial data herein on a periodic basis or when deemed imperative, and this Business Plan and the financial documents herein will be so examined and revised accordingly. Because of current status of the Company, more accurate and reliable estimation of the expenditures will not be available until first quarterly revision of the Plan after the new company being established.

II. ORGANIZATIONAL PLAN

1. Description of Business

SMA-II.com, Inc. is a start-up "B2C" Internet Service company to be reincorporated in Delaware. Its goal is to establish dominant presence in on-line entertainment and online education segments of the industry. The company's advantage lies in its novel Business Models and patent pending Internet-enabled products ("e-Doll") comprising combination of physical goods and electronic streaming media, which are expected to have enormous appeal to the consumer public. The invented products integrate existing popular household technologies into a consumer product to largely increase the product's form-utility value, and thus provides a new Internet entertainment media that is completely different from traditional non-interactive media.

The Company will have relatively broad Marketing-mix breadth compared with conventional e-content business. In order to optimize its marketing efficiency, the Company will seek partners that possess established general portal web site and/or ISP. The Company's general business operation will include overseas production of hardware components of the e-Doll, web site construction, and alliances with computer software and motion picture / entertainment industries for developing the product's entertainment / education streaming contents. In regarding overseas production of hardware components, Incorporator considers contract manufacturing as a preferred option at least for start-up operation so as to hasten the product's Market Entry in advance of a holiday shopping season.

Incorporator is fully aware of the importance of building the Company's Brand Name identity in order to compete with traditional child-entertainment media, and the importance of Company's profitability and financial performance so as to sustain the industry's unpredictable factors such as potential tech stock-market turmoil in the future or change in government regulations. Incorporator understands that taking advantage of legal instrument available such as intellectual property law to protect the Company's business and to avoid direct competition is vital to the Company's success. Incorporator has made utmost efforts to obtain such legal protection, and will continue such efforts for Company's all innovative products, services, and business methods.

In addition to the aforesaid Internet-enabled products ("e-Doll"), Incorporator also possesses business methods for general online marketing (provisional patent application has been filed). The Marketing Model may not render immediate full coverage of all market segments, but Incorporator believes in its marketing efficiency and profitability compared with conventional "dot.com" marketing model. Detailed implementation of the Model will be based on rigorous marketing research, of which Incorporator has complete confidence in his know-how.

The Company will start the IPO proceeding 24 to 27 months after initial financing, which is slightly longer than many "dot.com" companies because of the Company's overseas manufacturing and interactive streaming content development operations. As projected in the "Financial Document" section hereinbelow, the Company will realize positive cash flow during the third fiscal year, and will have five (5) million membership-fee based customers after the fifth fiscal year. The Company's actual business volume will be largely dependent on working capital available for initial manufacture and marketing expenses. Should investors feel confident of the Plan and business concept described herein, and thus, provide sufficient funds, the Company's actual business volume could be substantial larger than projected herein.

2. Legal Structure

Legal structure of the company shall be chosen between S or C corporation with preference for the C status for tax purposes, since growth of the business operation will largely rely on the Company's accumulating earnings (less earning distribution / loss) in its first four to six fiscal years should the Company have limited amount of working capital available before establishing healthy financial performance and cash flow.

I, Shalong Maa, will be the incorporator or promoter, and will serve on the first member of Board of Directors. The Company is only seeking investment from private investors and/or large venture capital companies at the moment, and is expected to have less than 20 shareholders. If so, the Board of Directors will consists of all the shareholders. Otherwise, election will be conducted.

Stock authorized in the Article of Incorporation to be submitted to the Secretary of Texas State (or Delaware) shall be 50,000,000 (tentative) no par value shares, since the financial data, sales volume and income projection proposed in this Plan (see "FINANCIAL DOCUMENT" and "Five Year Income Projection" sections below) are tentative and subject to amendment.

Evaluation of the Company's stock value will be based on auditors' assessments and according to the Company's actual financial performance, income and income projection, total assets, short-term and long-term debts, risk factor evaluation, and according to projection of free cash flows for "net-present-value" analysis.

The Company will start seeking lead IPO Underwriter and syndicate underwriters 20 to 25 months after establishing its legal status. Incorporator expects the lead underwriter to be well-known in underwriting "dot.com" IPOs with reasonable fees (6-9% discount). Incorporator and the Company's financial officer will be the primary authors of the IPO Prospectus. As

described above, Incorporator expect the IPO process to commence 24-27 months after initial financing, and culminate 3-6 months thereafter.

Incorporator offers annual growth rate of 25-35% (tentative) for investors' initial equity capital funds.

Form of the company's legal structure and share subscriptions shall further be discussed among the prospective investors. All of the Company's essential characteristics and basic structures, such as the company's name, purposes, stock authorization, classes of shares, members of the initial Board of Directors, and shareholders' preemptive rights shall be described officially in the Articles of Incorporation.

3. Products and Services

As described above, B2C e-Service" is the Company's basic business structure. The Company's e-entertaining / e-education streaming content services will be hosted by the Studio web site, and will feature Incorporator's Invention of animated talking "Web-Doll" or e-Doll. The Invention integrates elaborate sound system and mechanical-control functionality of an Internet computer into a physical doll to make the doll "live", employing reliable electro-mechanical technologies.

The e-Doll does not have complex electronic / mechanical interior, and thus, will have reasonably low price that most parents are willing to pay. According to pending prosecution of the patent application and prior art references cited in the USPTO (U.S. Patent and Trademark Office) Office Actions, there has been no prior art proclamation of digitally-controlled physical doll before Incorporator's Invention. Incorporator has been making every endeavor to obtain broadest possible (patent) Claims for the Invention.

[Note: In accordance with USPTO's official guidelines on interpretation of IP Statute (Title 35 U.S.C.), the Invention meets all general criteria of patentability. Incorporator would like to urge Investors to conduct their own technical evaluation and patentability research of the invention to their satisfactions. Incorporator has in-depth knowledge of Intellectual Property ("IP") Law, and believes that functional feasibility of the invention and patentability of the Claims are evident to those having ordinary skills in the respective fields to which the invention and the patent application pertain. If attested to the contrary, the parties shall cease the Business-Plan evaluation proceeding.]

The e-Doll possesses far superior functionality compared with traditional animated talking dolls, including precise digital control of movement of the e-Doll's each articulated body part. The e-

Doll's body interior includes a digital actuation means for moving the e-Doll's mouth, a sound speaker, and a microphone, which are all controlled by an Internet computer. The Internet computer and the Studio-site web server enable accurate synchronization of the e-Doll's "lips" with its "speech", and can provide the e-Doll with unlimited vocabulary in any languages. Contents of the e-Doll's speech can be predefined and provided by the web server. Alternatively, users can input or program their desired e-Doll audio contents through a computer-input device such as keyboard or CD-ROM.

The e-Doll's elaborate functionality renders many online entertainment features that are expected to have enormous appeal to the consumers, including audio-lingual exchange between the physical e-Doll and an on-screen animated figure characterized in a web-server enabled motion picture, as well as reformation of the e-Doll's audio sound and the associated web streaming content in response to a child user's voice input, etc. Thus, the e-Doll will provide a new Internet-enabled interactive entertainment media that is completely different from traditional non-interactive media.

In addition to the e-Doll's body portion, another hardware component of the product is the interface (I/O) device to be installed onto a computer's expansion slot for sending sound and digital actuation-control signals to the e-Doll's body; Conventional wireless devices can also be installed into the Internet computer and the e-Doll's body to enable wireless signal transmission between the e-Doll and the web computer so that the e-Doll can be moved around by a child user. The I/O card can be made to have multiple control channels for controlling more than one e-Dolls such that a child user can be provided with a "multiple e-Doll theater" at home with the child holding and playing with e-Doll actors / actresses of a live Internet movie (or an interactive education program), or even participating in some movie actions.

Thus, a more important component of the product is the e-Doll's interactive entertainment / education streaming content, which will be distributed through the company's Studio Site. The web server or client browser may be provided with simple speech recognition system so that the e-Doll can understand some simple words such as "yes", "no", "start", etc., from a child user. Because of its interactive nature between the e-Doll and a child user, resulting from employment of Internet computer, "smart" Entertainment / Education contents and server-side software analysis system can be provided to help with young children's early education. For example, the e-Doll can explain to a child user the e-content of an education program shown on the client computer browser, etc.

The web server database can be used to store a young child's voice recorded through the client

browser and the e-Doll's microphone "ear". Custom-made software system can be installed on the server for analyzing a child user's voice response to different audio-video contents, and accordingly, delivering suitable contents back to the client browser. For example, the software system can be made to analyze what type of graphical content, such as colors, type of images, etc., the child is more interested in, and to analyze the child's previous "progress", so as to sent suitable streaming content back to the client browser the next time. The interactive streaming content can be made in such a way that flow of stream be dependent on a child user's voice response so as to make it more interactive for drawing the child user's attention.

The e-Doll will be children's "live puppet friend" and intelligent "web babysitter" by talking to them, telling them stories on the computer monitor, and more importantly, teaching them languages, music, simple logic, etc., according to the associated education contents shown on the client web browsers. The e-Doll can give children much more early experiences without putting excessive pressure on them.

Many scientific researches show that, a young child's (birth to 3 year) early experience is very important for the child's various skills after the child grow up. For example, according to the cover story report in 2/19/96 issue of NEWSWEEK magazine: "*.. Early experiences are so powerful, says pediatric neuron-biologist Harry Chugani of Wayne State University, that 'it may completely change the way a person turns out.'* " Such early experience can not be provided by conventional non-interactive entertainment media, since it is difficult to keep young children's attention to education contents. Direct interactions between a physical animated talking e-Doll and a young child can certainly help solving such problem of drawing young children's attention to on-screen education contents.

Therefore, providing entertainment-education digital streaming contents will be a very important portion of the Company's online Entertainment services. Development of such contents will be based upon the results of studying product-related child behavior and psychology and children's reactions to different contents and interactive functionality.

4. General Production and Operation Plan

The Company's general production and operation plan is summarized hereinbelow as comprising five (5) segments, including: (1) General Administration; (2) Web site construction and management; (3) Development of Interactive Digital Streaming Content and the Customer Services in conjunction therewith; (4) Overseas manufacturing; and (5) Marketing operation.

4.1. Operation of the Company's general administration will be no different from conventional corporate administrative operation, except that at startup stage, there will be heavy recruiting tasks, which could be affected by locations of the Company's corporate offices.

4.2. The Company will have its own developer team for web site development and editorial of interactive HTML content, and for developing server-side programming and transaction-processing systems for the Company's entertainment / education studio site. The developer staff will also be responsible for management of outsourced contents, such as News / Sports contents, and for enhancing the web sites' existing features and functionality. The Company will acquire financial services for automatic processing of customer payment transactions, and will, via software contracting services, invest in developing interactive content-response software platforms for installation on the studio-site servers for analyzing a child user's voice response to different audio-video contents and, in response thereto, delivering suitable contents back to the client browser.

4.3. As described above, providing interactive education / entertainment digital streaming contents and the associated customer services through the Company's studio sites are key segments of the Company's business operation, since a large portion of the Company's sales revenue will come from customer's membership fee for using the contents. Development of the interactive streaming contents may require relatively large resource investment at startup stage, since the contents' volume should be large enough for children of different age groups to enjoy for substantial amount of time so as to facilitate the initial marketing operation. The Company may need to alliance with motion picture and software entertainment contractors for producing the interactive digital streaming contents at startup stage. Eventually, Incorporator expects that, the e-Doll be generally accepted by the public as a standard popular interactive education / entertainment platform that can be licensed to all entertainment software producers for providing the contents.

The difference between the e-Doll's interactive digital streaming content and conventional digital audio-video streaming media lies in that the interactive digital streaming content of e-Doll includes a digital-control data stream, concurrent with the streaming media, for controlling the e-Doll's moving body part(s) in synchronization with the streaming media. Thus, studio production instrumentation and software system needed for creating such interactive digital contents should not require substantial resource investment at all.

4.4. As described above, Incorporator considers contract manufacturing as a preferred option at least for start-up operation so as to hasten the product's Market Entry in advance of a holiday

shopping season. However, since the e-Doll is expected to have large sales volume for a long period of time, the Company may eventually build its own overseas manufacturing operation through acquisition.

Therefore, the initial task of manufacture operation will be seeking toy manufacture contractor, for fabricating body portion of the e-Doll, and electronic manufacture contractor for making computer I/O card interface portion of the e-Doll. As described above, there should be no doubt about the product's functional and production feasibility. Thus, prototype developments for the two hardware components of e-Doll are expected to take less than three (3) months for standardizing the product's mechanical and electronic structures. The prototype so obtained will be utilized for defining the product's pricing model, and for developing the e-Doll's interactive digital streaming content by studying children's response to the prototype and the associated streaming media. Incorporator expects that the entire product be available for sales in large volume by September, 2002 before the holiday shopping season, including freight shipping times.

The e-Doll's physical structure shall be so standardized as making it easy for a user to change its cloth cover and, hence, its appearance. Design of the e-Doll's physical appearance may need to be consistent with the aforesaid software streaming content provided by each producer. Incorporator prefers that the Company develops its own trademark identities for the e-Doll's appearances. Apparently, licensing an existing popular toy figure image in the market is an option for improving the e-Doll's popularity and diversity.

4.5. The Marketing operation plan is described in the "Marketing Plan" section hereinbelow.

5. Management and Personnel

At the start-up stage, I, Shalong Maa, will be the President and Chief Exclusive Officer (CEO). My strength is in my ability of defining corporate strategy and making decision, my diverse technical and business experience, high working efficiency, and in my ability of quickly acquiring new concepts as to following development and transformation of new technologies and e-Commerce industry trend. All these plus my marketing-oriented management form will make me a successful CEO.

Because of the expected size and potential growth of the business operation, it's impossible to provide detailed descriptions for the Company's all job positions herein. This section will only provide job descriptions for the Company's top executive positions. Total number of employee

to be hired will be dependent upon the Company's business growth and development. The Company's top executives and lower management personnel shall be capable of assessing job positions and number of employees needed in their respective operation area and providing appropriate job descriptions. Incorporator and the Board of Directors will make final decisions on recruiting or appointing the Company's top executives based on the job descriptions and operation plans provided herein. Incorporator prefers appointing or promoting lower level managers and employee for the Company's executive positions according to their accomplishment and capability shown while working with the Company rather than direct hiring.

5.1 Job Description for the Management Positions

The first two positions need to be filled at very early stage are Administrative Manager and Human Resource manager so as to start on the Company's basic operation. The Company's top management positions at startup stage will include: a Production Manager, a Software Engineering Manager, a Marketing Director, a Financial Officer, and a Streaming Content Development Manager. They all should report directly to the Company's president & CEO.

1. The Production Manager shall be in charge of the Company's contract manufacturing operation as described above. He should have extensive technical and sales/marketing experience in toy manufacture industry and strong technical background in electronics. The Production Manager's initial job is to immediately start searching for and evaluating toy manufacture contractor and electronic manufacture contractor for fabricating body portion and computer I/O card portion of the e-Doll respectfully; and then to help Incorporator and the Company's legal counsel in negotiating the contract agreements thereof. The Production Manager will work with the contractors and the Company's other technical stuff to optimize and standardize the e-Doll's mechanical and electronic structures before commencement of large volume production. During each production cycle, the Production Manager will be responsible for contract management, including monitoring suppliers' performance, providing technical advises and requirement for the contractors, and helping the Company's Financial Officer with contractor finance management. He will also assist Incorporator with intellectual property management and new product development.
2. The Software Engineering Manager should have substantial industrial experience and an advanced degree in computer software with solid experience in computer hardware. He will be responsible for defining and providing technical specification for the e-Doll's education / entertainment digital streaming contents, setting up developer team for developing the Company's studio web sites, and working with computer software contractors in developing or

acquiring all software packages needed for installation on the Company's web site servers and network computing systems. The Software Engineering Manager should be capable of keeping close track of development of new technologies and transformation of industry trend, and deciding what technologies are best suited for the Company's network computing systems. He will also assist Incorporator with intellectual property management and new product development.

3. The Streaming Content Manager shall be a child entertainment and child psychology professional with extensive working experience in entertainment media industry. She will work with the Software Engineering Manager and the Company's content development contractors in developing the e-Doll's education / entertainment software streaming contents and determining the e-Doll's physical images desired for market entry. She will also be responsible for conducting product-related child psychology research, setting up and managing product-content related customer service operation, and helping the Company's Financial Officer with contractor finance management. In conducting product-related child psychology research, she will study children's response to the e-Doll's different physical images and interactive functionality of the associated streaming media. After the Company gain large customer bases and market share, the Streaming Content Development Manager will start working with a third party child research institute for studying how or how much a child's intelligence can profit from "playing" with the e-Doll, by comparing various skill levels of a group of children who have substantial e-Doll experience with the respective skill levels of a group of children having similar personal background but having no e-Doll experience.

4. The Sales and Marketing Director will be one of the Company's most important positions as to helping Incorporator with the Company's strategic plan. He should have substantial marketing experience in e-Commerce industry with strong business background and a MBA degree. He will provide business and marketing advice to Incorporator regarding the Company's general sales and marketing strategies and business acquisition. He will help Incorporator and the Company's legal counsel with all contract or business agreement negotiation. The Sales and Marketing Director will also be responsible for implementing the Company's all Sales and Marketing Plans, conducting marketing research, working with top level media marketing or advertising agents and with the Company's online business partners / affiliates for promoting the Company's products and services, and setting up sales and distribution channels.

5. The Chief Financial Officer should be a CPA with substantial working experience in e-Commerce industry so as to provide financial advice to Incorporator for determining the Company's financial strategy. He will be responsible for contractor finance management and for

the Company's all finance related filing and documentation, including preparing and filing of all Tax, SEC, and IPO related papers and documentation such as IPO Prospectus, Registration Statement, Proxy Statement, Statement of Beneficial Ownership, and corporate Quarterly and Annual Reports, etc.

5.2 Training:

Since taking advantage of new technologies is the essential part of the business, general technical training seminars will be conducted by the Company's technical personnel on a regular bases so as to have all the employees be familiar with basic computer operation and Internet applications, and to constantly update business information and new products and services available in the market that are relevant to the Company's business and computing network operation. In addition, general operation procedures will be developed for all lower level positions by the respective management personnel.

5.3 Method of Record-Keeping and Financial Reports

All bookkeeping activities shall be done by the Company's Financial Officer and Administrative Managers. Before the aforesaid IPO proceeding, Financial Reports will be filed every six month by a third party CPA. The Chief Financial Officer will write monthly reports to each member of the board of directors.

III. MARKETING PLAN

1. Market Analysis and Sales Projection

1.1 Market Index and the Customer Profile

As described in the "Organizational Plan" section hereinabove, "B2C (Business to Consumer) Streaming-content Service" is the Company's basic business structure. The company's primary target customer groups are U.S. households having young children and consumers having home computers and Internet access. Thus, Market Index is defined herein as ratio of penetration of active Internet users.

Recent "NSF" report (Science and Engineering Indicators 2000) shows that 54% of U.S. consumers have access to home computers, and 46% have Internet access. According to recent "Nielsen/NetRatings" reports, "Over 60% of U.S. consumers with home Internet access go online in a typical month", and there are about 83 millions active Internet users in the United States. Surveys of U.S. Census Bureau show that, in 1999, U.S. resident population is 272.9 millions, and households number is 103.9 millions. In accordance with "Statistical Abstract of the United States", populations of young children under 5 years old and between 5 to 13 years old in the United States were projected to be 19.3 and 36.8 millions, respectively, in year 2005.

In regarding U.S. toy market, research results disclosed by NPD Group, based in Port Washington, N.Y, show that, online toy sales "catapulted" from \$45 million in 1998 to \$425 million in 1999, a tenfold increase, and were predicted to reach \$1.6 billion by 2002, and that, online toy sales accounted for less than 2% of all 1999 toy sales, which totaled \$23 billion.

1.2 Market Potential and Penetration

In accordance with the above-described market index statistics, the Company's primary product, the e-Doll, and the interactive streaming content services have market potential of at least 20 millions household members. Market penetrations for the e-Doll and the Company's Studio site services are projected hereby as: 2.5% for the first sales annual, 10% (2.5% + 7.5%) the second sales season, and 25% (10% + 15%) the third year, with an assumption that there will be no direct competition for the e-Doll. Actual market penetration will be largely dependent on working capital available and the product's influence upon consumers' rational Buying Behavior.

The following calculations in this subsection are based on the presumptions that unit price for the e-Doll's hardware component is \$30.0 / unit, and membership fee for the Company's Studio

site streaming content services is \$5.0 per month. Then the above market potential and penetration statistics indicate annual revenues of \$15 millions, \$45 millions and \$90 millions, respectively, for sales of the e-Doll's hardware component in first three sales annuals, and annual revenues of \$5 millions, \$35 millions and \$90 millions, respectively, for sales of digital streaming content services in the first three sales annuals, in the United States. [Note: sales of streaming content services can only start after sales of the e-Doll's hardware components for each customer, which is why sales revenues for the services are considerably lower than as calculated by average monthly membership fees for the first few years.]

It is difficult to provide significant projection of market potential and penetration for international market currently, because of complexity of the market structure and lack of relevant information. For examples, popularity of home computer and Internet usage are higher in Japan and Europe than other parts of the world; and in China, though average household technology is still not quite comparable with some of the industrial countries, she has population of 1.2 billion people. The Company's International marketing strategies will be largely dependent upon performances of the Company's domestic operation, and will be based on working capital available.

1.3 Buyer's Behavior

As described above, the Company's objectives are beyond simply providing another type of amusement tool for young children. The e-Doll's digital streaming contents will be designed to substantially improve a young child's early experience, which is regarded as being very important for the child's various skills when she grow up. Thus, we expect the e-Doll's appealing features to have considerable influence upon consumers' rational buying behavior, which will depend heavily on intelligent design of interactive features and functionality of the e-Doll's digital streaming contents.

In regarding e-retailing, it is believed that the recent so-called "E-Commerce shakeout" were largely due to the industry's inability of changing consumers' buying behavior. As described above, online toy sales accounted for only less than 2% of all 1999 toy sales. According to online research survey conducted by NPD Group, based in Port Washington, N.Y: Percentages of respondents reciting "unwillingness to pay shipping costs" as a reason for deciding not to purchase toys online were 55% in 11/99 and 32% in 01/00; Percentages of respondents regarding "desire to see in person the intended purchase item" as a reason for not buying toys online shifted from 46% in 11/99 to 29% in 01/00, which may be attributed to marketers' increased attention to providing comprehensive product information online; Percentages of respondents considering "online return policies" as a reason for not buying toys online dropped

from 25% in 11/99 to 12.5% in 01/00, which may be linked to an increase in “click-and-mortar” retailers permitting returns of goods to their physical stores.

1.4 Competition

As described above, according to pending prosecution of patent application for Incorporator’s Invention of e-Doll and prior art references cited in the USPTO (U.S. Patent and Trademark Office) Office Actions, there has been no prior art proclamation of digitally-controlled physical doll before Incorporator’s Invention. In accordance with USPTO’s official guidelines on interpretation of IP Statute (Title 35 U.S.C.), the Invention meets all general criteria of patentability. Incorporator has been making every endeavor to obtain broadest possible (patent) Claims for the Invention. Thus, Incorporator does not expect any direct competition for the Company’s primary products, the e-Dolls, and the associated digital streaming content services to be provided at the Company’s studio sites.

1.5 Industry Trends

Toy industry has been existing for more than a hundred years. So far, development of modern technologies has not given the industry any significant impact except for the emergence of micro-electronic devices forty years ago. The allure of those sophisticated electronics and their miniaturization have encouraged the manufacturers to make more elaborated dolls with sound producing and animation features. However, the resultant rise in manufacturing costs and limitation to functional features have reduced existing electronic toys’ marketability.

Incorporator believes that the increasing popularity of Internet networking technologies could change the industry trend. Marketability of the Internet-enabled e-Dolls lies in its relatively low manufacturing costs and rich interactive functions and features that are best suited for improving early education of all young children.

On the contrary, E-Commerce industry has been existing for only a few years. “Pure-play” Online retailers, once regarded as being equipped with one of the better business models, have undergone the so-called “shakeout”. All pure-play e-retailers have been reporting substantial operation losses, which is the apparent cause of considerable devaluation of their stock and corporate market values. Some of the losses may be attributed to expenses needed for business expansion for all start-up companies. Incorporator is not able to draw any conclusion as to business feasibility of conventional e-retailing model based on available financial information of some of the e-retailers’ business operation (e.g., Amazon.com, eToys.com). Incorporator’s novel online marketing model described above is best suited for e-retailing, and is believed to be more efficient and profitable than conventional “dot.com” marketing model.

1.6 Timing of Market Entry

Timing of market entry will be dependent upon commencement of initial financing and, hence, the schedule of the Company's full operation. Assuming that such initial financing be available within next few months, the operation will be aiming at introducing the e-Dolls to the market and conducting aggressive marketing campaign before and during the 2002 Holiday Seasons. It would be very difficult to advance such schedule by a full year without diminishing quality of the products and services.

2. Marketing Mix and Marketing Strategy

The Company's general operation and marketing strategy is to assure profitability at early stage. In the mean time, the entire operation will be structured to facilitate substantial business growth in the future. Actual implementation of the strategy will be based on working capital available before the Company's IPO proceeding. Incorporator believes that such strategy comply with investors' general interests in risk reduction and return on investment.

2.1 Product Mix

Accordingly, the Company will adopt Market Aggregation strategy for market entry. The product mix shall have suitable depth with limited breadth with respect to the e-Doll's physical appearances and the associated digital streaming contents, so as to meet demands of all market segments. Trading up and/or trading down can be done during the second phase operation based on the Company's previous marketing results. Market Segmentation strategy will be adopted when the Company gain better cash flow, so as to improve profit margin, by providing products that target on different consumer groups such as Internet users having different network access speeds.

Since the e-Doll is enabled by new household technologies, i.e., computers and the Internet, its product life cycle shall be dependent upon development of other new technologies in the future. Currently, there is no reason for projecting decline stage of the product life cycle to anywhere in the near future.

2.2 Pricing Structure

Since the e-Doll is expected to have no direct competition, its distinctive and appealing interactive features and functionality for benefiting young children's early education will lend itself to effective marketing. Market demand at the e-Doll's market entry stage will be inelastic. Thus, it would be feasible for embracing "Cream-Skimming" pricing strategy, i.e. setting a

price that is high in the expected price range to give more room for substantial discounts and allowances, since it would be difficult to raise a price that had been proven to be too low. Actual retail pricing will be so structured that most parents are willing to pay, so as to truly benefit early education of all children.

At current stage, it is difficult to accurately evaluate the product's price floor. Product prices used for break-even analysis and Income Projections in the "Financial Document" section below are based on the products' "perceived values" in the market. Accurate pricing structure will be determined after the products' all technical components being standardized, and will be based on test marketing results and further marketing research. In addition, channel of distribution to be selected and types of middlemen to be used, if any, will also affect the pricing.

2.3 Distribution System

Most of large toy manufacturers market their products to mass merchandisers such as large retail chains and wholesalers. However, very often a retail chain will not stock a given product unless it has been pre-sold through heavy media advertising. Thus, the e-Dolls will have short distribution channels for market entry, which complies with Incorporator's initial plan of building its own online retail infrastructure and operation for distribution of physical components of the e-Dolls. Short channels can be easily controlled and will reduce markup costs. By controlling distribution channels, the Company can have better control over pricing and promotion.

2.4 Promotion

As described above, the e-Doll's distinctive and appealing interactive features and functionality are expected to have substantial influence upon consumers' rational buying behavior. Thus, "primary demand advertising" and "direct-action advertising" strategies will be employed for stimulating demand while introducing the product to the market, so as to gain positive cash flow within short period of time. If deemed necessary, test marketing will be conducted for providing information for marketing research, pricing, sales projection, and for directing the Company's resource investment in advertising.

Advertising expenditures as percentage of net sales for most of the traditional blue chip corporations are within the range of 5 - 15%. Most of the E-Commerce companies' advertising expense rates are much higher, as up to 37% of net sales. Nevertheless, product-mix structure of the Company's primary product, the e-Doll, is different from that of conventional products or services. The product's revenue model comprises sales of the e-Doll's hardware components in combination with periodic membership fees for the software streaming contents services. Thus,

it may not be feasible for using conventional method to anticipate marketing and advertising expenses. Incorporator plans to devote the equivalent of 50% of sales of the e-Doll's hardware components to advertising, which, according to sales projections in the "Market Potential and Penetration" subsection above and in the "Financial Documents" section hereinbelow, accounts for \$7.5 millions and \$22.5 millions for the first two sales annuals, should such funding be available.

IV. MILESTONES AND MEASURE OF SUCCESS

In order to give investors confidence in return on investment and to continue the funding, milestones and measurement of success of the Company's operation and business developments are herein set forth as follows:

The first Milestone will be commencement of mass production of the e-Doll's hardware components in preparation for market entry. Measure of success thereof includes: [a] quickly determining and defining technical standards for the e-Doll's software and hardware components within less than five (5) months so as to facilitate large volume production thereafter; in the mean time, [b] successfully searching entertainment software contractors and toy manufacturer contractors; [c] starting large volume productions of the e-Dolls' hardware components by Jan. 2002; and [d] the e-Doll's interactive digital streaming contents being available for distribution at the Company's studio site by Jul, 2002.

Product Market Entry will be the second Milestone. Measure of success thereof includes: [a] the entire product being available for market entry by Sept. 2002; and [b] sales volume in 2002 holiday shopping season, size of the Company's customer basis, and the Company's web site traffic, as compared with projections in "Market Potential and Penetration" section above. The Company is expected to incur substantial operation losses and negative cash flow during the first phase operation, which will continue until after the second or even third fiscal year.

Measure of success of the first phase operation shall also include successful development of high quality and intelligent interactive digital streaming contents for the e-Doll as to how much it can truly help with a young child's early experience. The Company's ultimate business volume will be determined by quality and interactive functionality of the e-Doll's digital streaming contents and children's enthusiasm for the product. In order to enhance the Company's marketing advantage, a long term research program shall be conducted, as described in the first section, to study how product-related early education will affect children's various skills when they grow up.

The third milestone and measure of success thereof will be the Company's Initial Public Offering and amount of working capital raised from the IPO, which will be direct reflection of success of the Company's previous business operation and financial performance. The fourth milestone will be the Company's financial and stock market performance during and after the third fiscal year. Starting to generate positive cash flow during this time period will be considered as success.

V. FINANCIAL DOCUMENTS

1. Summary of Financial Needs

As described in previous sections, SMA-II.COM is a "B2C e-Service" company in need of equity capital investment of \$28 millions for start-up operation for the first three fiscal years. Since the e-Doll's digital streaming contents require relatively low development costs that are not directly proportional to sales volume of the e-Doll's hardware components, it is projected herein that the Company will have relatively large gross profit, as shown in the ensuing financial data.

2. Fund Dispersal Statement

2.1 DISPERSAL OF FUNDS

The aforesaid start-up working capital of \$28 millions does not include the e-retailing or product distribution expenses proposed in the previous Plan. The start-up working capital will be used for web site and technology, contract manufacturing, product development, initial marketing and general administration expenditures.

2.2 BACK-UP STATEMENT

A. Development of Interactive Digital Streaming Contents

Development of the e-Doll's digital streaming contents will be done by third party entertainment software contractors, and be managed by the Company's Streaming Content Manager and Software Engineering Manager. Each project is expected to take about six (6) months for a developer team of four to six software engineers, which will account for development costs of about \$380,000 per project. An annual average of six (6) project will account for development costs of \$2.3 millions / year.

B. Web Site and Technology

Payroll expenses needed for developing web site functionality, web server programming and transaction-processing systems are estimated to be \$1.67 millions/year for the first three years. Computer networking system and infrastructure and software technology expenses are projected to be \$1.35 millions/year the first three years. Total Web Site and Technology expenses, including costs related to systems and telecommunications, are estimated to be \$3.2 millions/year for the first three or four years.

C. Contract Manufacturing Expenses and Total Cost of Sales

As described in the “MARKETING PLAN” section above, retail revenues from sales of hardware components of the e-Dolls are projected to be \$15 millions for sales of 0.5 millions units during the first holiday shopping season. Because all financial data projected herein are based on the assumption that the Company does not have its own product distribution operation, costs for contract manufacturing are calculated based on conventional estimation of wholesale costs with 30% markup (or gross margin). Thus, total costs of sales are projected to be \$3.4 millions, \$19.0 millions, \$19.6 millions and \$63 millions, respectively, for the first, second, third, and fourth fiscal years. [Note: Cost of sales in the third fiscal year or second sales annual will be partially funded by working capital raised from the Company’s IPO and receivable income from previous sales of digital streaming content services.]

D. Sales and Marketing

As described in “MARKETING PLAN” section above, total sales and marketing expenses, including advertising, promotional and public relations costs, are projected to be \$0 for the first fiscal annual, \$8.0 millions the second fiscal year, \$24.0 millions the third year, and \$48.0 millions the fourth year. [Note: Again, costs of sales and marketing for the third fiscal year will be partially funded by working capital raised from the Company’s IPO and by receivable income from previous sales of digital streaming content services.]

E. General and Administrative

General and administrative expenses, including recruiting and professional fees, payroll and related expenses for executive, finance and administrative personnel, and travel and other general corporate expenses, are projected to be \$1.0 millions the first fiscal year, \$1.6 millions the second annual, \$1.8 millions the third year, and \$2.5 millions the fourth and fifth years.

3. Break Even Analysis

Again, as described above, the Company’s primary product, the e-Doll, has different product-mix structure compared with conventional products or services. Its revenue model comprises sales of the e-Doll’s hardware components in combination with periodic membership fee for the associated digital streaming contents services. Thus, it may not be feasible for employing conventional break-even analysis methods for evaluation of variable and fixed costs.

In the following numerical analysis, the above-projected operation expenses for the Company’s

third fiscal year (or second sales annual) are used for sales of 1.5 million units. The analysis is based on the assumptions that sales of the e-Doll's hardware components provide 0% gross margin, and that accumulated annual service length of 12 months for the e-Dolls' digital streaming content services be used instead of average service length of 4 months as used in the ensuing income statements. In addition, 'Web Site and Technology' expenses and Development Costs for the e-Dolls' digital streaming contents are regarded as fixed costs, since these expenses are not directly proportional to the sales volume, although they will increase with expansion of the Company's business volume when targeting on different market segments. Apparently, General and Administrative expenses should also be considered as fixed costs although such expenses will also increase with expansion of the Company's business volume. Variable costs include the above-projected Sales and Marketing and Contract Manufacturing expenses.

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- 1) Total fixed costs = $\$1.8 + \$1.5 + \$3.0 = \6.3 millions
 - 2) Total variable costs = $\$31.5 + \$24 = \$55.5$ millions
 - 3) Ave Variable costs = $\$55.5\text{MM} / 1.5\text{MM} = \$37.0 / \text{unit}$
 - 4) Sales price = $\$5./\text{mon} * 12 (\text{mon}) + \$30 = \$90.0/\text{unit}$

$$\begin{aligned}\text{Break Even point in units} &= (\text{Total fixed costs}) / (\text{unit contribution to overhead}) \\ &= (\text{Total fixed costs}) / (\text{sales price} - \text{average variable cost}) \\ \text{Break Even point in units} &= \$6.3 \text{ millions} / (\$90.0 - \$37.0) / \text{unit} \\ &= 120,000 (\text{unit})\end{aligned}$$

Thus, sales of 120,000 units will break even.

SMA-II.COM CASH TO BE PAID OUT WORKSHEET

(Cash flowing out of the business, In Thousands, Time period: 2001 - 2003) (Page 1/2)

1. START-UP COST

Corporation Filing	\$ 1
Legal Fees	30.
Other Start-up Costs	69.
Total Start-up Costs	\$ 100.

2. COST OF GOODS TO BE SOLD

Contract Costs for 4 millions Units	
I/O Card (@ \$10 per unit)	\$ 20,000
E-Doll Body (@ \$11 per unit)	22,000
Total Payment for Contract Production	\$ 42,000

3. VARIABLE EXPENSES (Direct Sales)

Advertising/Marketing	\$ 30,000
Sales Commissions	600
Freight	700
Travel	400
Miscellaneous	300
Total Sales Expenses	\$ 32,000

4. FIXED EXPENSES (Indirect)**4a. Administrative & Office Operation**

Officer Salaries	\$ 2,700
Payroll Benefit (25%)	675
Financial Auditing (@ 3 X \$100/yr)	300
Rent & Utilities (@ 36 X \$ 16,000 / mo)	600
Office & Operation Supplies	65
Telecommunication	60
Miscellaneous	20
Total Office Operation Expenses	\$ 4,420

4b. Other Capital Expenditures

(for property and non-computing equipment)	\$ 150
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SMA-II.CO CASH TO BE PAID OUT WORKSHEET

(Cash flowing out of the business, In Thousands, Time period: 2001 - 2003) (Contd. Page 2/2)

4c. Contents & Technologies

Web Site Contents & Functionality

(3 x \$1,700)

\$ 5,000

Networking Technologies

(3 x 1,350)

4,050

Digital Streaming Contents

(3 x \$2,300)

7,000

Miscellaneous

(3 x \$120)

380

Total Development Costs**\$ 16,430****TOTAL FIXED EXPENSES****\$ 21,000****5. ASSET (Long-Term Purchases)**

Cash to be paid out in current period

6. LIABILITIESCash outlay for retiring debts, loans and/or
accounts payable

7. OWNER EQUITY

Cash to be withdrawn by owner

TOTAL CASH TO BE PAID OUT**\$ 95,100**

SMA-II.COM SOURCES OF CASH WORKSHEET

(Cash flowing into the business, In Thousands, Time period: 2001 - 2003) (Page 1/1)

1. CASH ON HAND

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2. SALES (REVENUES)

Direct Sales	<u>\$ 42,000</u>
Contract Sales	-0-
(Receivable) Services Income	40,000
Deposits on Sales and Services	-0-

3. MISCELLANEOUS INCOME

Interest Income	<u>\$ 1,200</u>
Payments to be Received on Loan	-0-

4. SALES OF LONG-TERM ASSET

-0-

5. LIABILITIES

Loan Funds to be received from banks	-0-
SBA and other lending institutions	-0-

6. EQUITY

Owner Investment	-0-
Contributed Capital (Corporation)	-0-
Sales of Stock	---
Venture Capital	<u>\$ 28,000</u>

TOTAL CASH AVAILABLE

<i>Without Sales</i>	<u>\$ 29,200</u>
<i>Without Sales</i>	<u>\$ 111,200</u>

SMA-II.COM (2001-2005)
FIVE-YEAR INCOME PROJECTION* (In Thousands)

	2001	2002	2003	2004	2005
Income					
1. Net Sales (goods)	-0-	\$10,500	\$31,500	\$63,000	\$105,000
2. Net Sales (services)	-0-	5,000	35,000	90,000	170,000
3. Cost of Goods Sold (c-d)	3,400	19,600	19,000	63,000	105,000
a. Beginning Inventory				--	--
b. Purchases	3,400	19,600	19,000	63,000	105,000
c. C.O.G. for Sales (a+b)	3,400	19,600	19,000	63,000	105,000
d. Less End Inventory		--	--	--	--
Gross Margin	\$(-3,400)	\$(-4,100)	\$ 47,500	\$ 90,000	\$ 170,000
Expenses					
1. Variable Expenses (Sales)	--	8,000	24,000	48,000	80,000
2. Fixed Expenses	6,000	7,000	8,000	12,000	15,000
Total Expenses	\$ 6,000	\$ 15,000	\$ 32,000	\$ 60,000	\$ 95,000
Income From Operation	\$(-9,400)	\$(-19,100)	\$ 15,500	\$ 30,000	\$ 75,000
Other Income (Interest)	300	400	500	1,000	1,500
Other Expense (Interest)	-0-	-0-	-0-	-0-	-0-
Profit (Loss) Before Income Tax	\$(-9,100)	\$(-18,700)	\$ 16,000	\$ 31,000	\$ 76,500
NOL Carried Over from Previous	--	\$(-9,100)	\$(-27,800)	\$(-11,800)	--
Taxes (Federal, State)	-0-	-0-	-0-	\$ 6,300	\$ 25,000
Net Profit (Loss) After Taxes	\$(-9,100)	\$(-27,800)	\$(-11,800)	\$ 24,700	\$ 51,500

* Please refer to the following supporting worksheets for details of each items

SMA-II.COM PRO FORMA
CASH FLOW STATEMENT - 2001 (In Thousands)

	Q1	Q2	Q3	Q4	Yr Total
Beginning Cash Balance	(\$ 2,500)	\$ 1,350	\$ 1,985	\$ 5,770	--
Cash Receipts					
1. Sales Revenue (cash)	--	--	--	--	--
2. Receivable to be Collected	--	--	--	--	--
3. Interest Income	60	40	100	100	\$ 300
4. Sale of Long Term Asset	--	--	--	--	--
Total Cash Available	60	1,390	2,085	5,870	\$ 300
Cash Payments					
a. Cost of good to be sold	--	--	--	\$ 3,400	\$ 3,400
b. Variable Expenses(sales)	--	--	--	--	- 0 -
c. Fixed Expenses	2,210	905	1,315	1,570	\$ 6,000
d. Interest Expenses	--	--	--	--	--
e. Federal Income Tax	- 0 -	--	--	--	- 0 -
f. Owner Withdraw	--	--	--	--	--
g. Loan Payment	--	--	--	--	--
Total Cash Paid Out	2,210	905	1,315	4,970	\$ 9,400
Cash Balance / Deficiency	350	485	770	900	--
Loan to be Received	--	--	--	--	0
Equity Deposits	1,000 [+ 2,500]	1,500	5,000	8,000	\$ 18,000
Ending Cash Balance	1,350	1,985	5,770	8,900	\$ 8,900

* Please refer to the following supporting worksheets for details of each items

SMA-II.COM PRO FORMA
CASH FLOW STATEMENT - 2002 (In Thousands)

	Q1	Q2	Q3	Q4	Yr Total
Beginning Cash Balance	\$ 8,900	\$ 5,100	\$ 3,410	\$ 5,955	\$8,900
Cash Receipts					
1. Sales Revenue (cash)	-0-	-0-	2,500	8,000	\$ 10,500
2. Receivable to be Collected	-0-	-0-	1,200	3,800	\$ 5,000
3. Interest Income	100	100	100	100	\$ 400
4. Sale of Long Term Asset	--	--	--	--	- 0 -
Total Cash Available	9,000	5,200	7,210	17,855	24,800
Cash Payments					
a. Cost of good to be sold	5,100	1,700	1,700	11,100	\$ 19,600
b. Variable Expenses(sales)	60	260	2,590	5,090	\$ 8,000
c. Fixed Expenses	2,740	1,330	1,465	1,465	\$ 7,000
d. Interest Expenses	--	--	--	--	--
e. Federal Income Tax	- 0 -	--	--	--	- 0 -
f. Owner Draws	--	--	--	--	--
g. Loan Payment	--	--	--	--	--
Total Cash Paid Out	7,900	3,290	5,755	17,655	\$ 34,600
Cash Balance / Deficiency	1,100	1,910	1,455	200	--
Loan to be Received	--	--	--	--	-0-
Equity Deposits	4,000	1,500	4,500	--	\$ 10,000
Ending Cash Balance	5,100	3,410	5,955	200	\$ 200

* Please refer to the following supporting worksheets for details of each items

**SMA-II.COM PRO FORMA
CASH FLOW STATEMENT - 2003 (In Thousands)**

	Q1	Q2	Q3	Q4	Yr Total
Beginning Cash Balance	\$ 200	\$ (-745)	\$ 2,620	\$ 3,775	\$ 200
Cash Receipts					
1. Sales Revenue (cash)	3,000	3,000	3,000	22,500	\$ 31,500
2. Receivable to be Collected	8,000	8,500	9,000	9,500	\$ 35,000
3. Interest Income	120	120	120	140	\$ 500
4. Sale of Long Term Asset	--	--	--	--	-0-
Total Cash Available	11,320	10,875	14,740	35,915	\$ 67,200
Cash Payments					
a. Cost of good to be sold	8,500	3,400	1,700	5,400	19,000
b. Variable Expenses(sales)	700	3,400	7,550	12,350	24,000
c. Fixed Expenses	2,865	1,455	1,715	1,965	8,000
d. Interest Expenses	--	--	--	--	- 0 -
e. Federal Income Tax	-0-	--	--	--	- 0 -
f. Owner Withdraws	--	--	--	--	- 0 -
g. Loan Payment	--	--	--	--	- 0 -
Total Cash Paid Out	12,065	8,255	10,965	19,715	\$ 51,000
Cash Balance / Deficiency	(-745)	2,620	3,775	16,200	--
Loan to be Received	--	--	--	--	- 0 -
Equity Deposits / IPO fund	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Ending Cash Balance	(-745)	2,620	3,775	16,200	\$ 16,200

* Please refer to the following supporting worksheets for details of each items

Contract Manufacturing Progress Payment* Work Sheet - 2001 (In Thousands)					
Part / Unit Delivery	Q1	Q2	Q3	Q4	Yr Total
Computer I/O Card	--	--	--	\$ 1,600	\$ 1,600
Unit Delivery				-0-	-0-
e-Doll Body	--	--	--	\$ 1,800	\$ 1,800
Unit Delivery				-0-	-0-
Total Contract Cost	--	--	--	\$ 3,400	\$ 3,400

Contract Manufacturing Progress Payment* Work Sheet - 2002 (In Thousands)					
Part / Unit Delivery	Q1	Q2	Q3	Q4	Yr Total
Computer I/O Card	\$ 2,400	\$ 800	\$ 800	\$ 5,100	\$ 9,100
Unit Delivery	200	300	100	100	700
e-Doll Body	\$ 2,700	\$ 900	\$ 900	\$ 6,000	\$ 10,500
Unit Delivery	200	300	100	100	700
Total Contract Cost	\$ 5,100	\$ 1,700	\$ 1,700	\$ 11,100	\$ 19,600

Contract Manufacturing Progress Payment* Work Sheet - 2003 (In Thousands)					
Part / Unit Delivery	Q1	Q2	Q3	Q4	Yr Total
Computer I/O Card	\$ 4,000	\$ 1,600	\$ 800	\$ 2,100	\$ 8,500
Unit Delivery	500	500	200	100	1,300
e-Doll Body	\$ 4,500	\$ 1,800	\$ 900	\$ 3,300	\$ 10,500
Unit Delivery	500	500	200	100	1,300
Total Contract Cost	\$ 8,500	\$ 3,400	\$ 1,700	\$ 5,400	\$ 19,000

- *Conditions:
1. Total of 2,000 Units for the first three years (all in thousands), @ costs of \$38,200;
 2. 10% fee, Total Price = \$3,400 + \$19,600 + \$19,000 = \$42,000;
 3. 80% Progress Payment & Liquidation for all projects.

Sales Expenses Worksheet - 2001 (In Thousands)					
Description	Q1	Q2	Q3	Q4	Yr Total
Advertising / Marketing	--	--	--	--	\$ 0
Sales Salaries / Commission	--	--	--	--	--
Freight	--	--	--	--	--
Travel	--	--	--	--	--
Miscellaneous	--	--	--	--	--
Total Costs of Sales	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Sales Expenses Worksheet - 2002 (In Thousands)					
Description	Q1	Q2	Q3	Q4	Yr Total
Advertising / Marketing	--	--	\$2,500	\$5,000	\$ 7,500
Sales Commission	--	--	50	50	100
Freight	--	200	--	--	200
Travel	30	30	20	20	100
Miscellaneous	30	30	20	20	100
Total Costs of Sales	\$ 60	\$ 260	\$ 2,590	\$ 5,090	\$ 8,000

Sales Expenses Worksheet - 2003 (In Thousands)					
Description	Q1	Q2	Q3	Q4	Yr Total
Advertising / Marketing	\$500	\$3,000	\$7,000	\$12,000	\$ 22,500
Sales Salaries / Commission	100	100	100	200	500
Freight	--	200	300	--	500
Travel	50	50	100	100	300
Miscellaneous	50	50	50	50	200
Total Costs of Sales	\$ 700	\$ 3,400	\$7,550	\$12,350	\$ 24,000

General & Administrative / Technology & Content Expenses Worksheet (In Thousands, Fiscal 2001)					
Description	Q1	Q2	Q3	Q4	Yr Total
1. Officer Salaries	\$ 100	\$ 100	\$ 100	\$ 200	\$ 500
2. Payroll Benefit (@ 25%)	25	25	25	50	125
3. Financial Auditing	20	20	30	30	100
4. Rent & Utilities	50	50	50	50	200
5. Office Supplies	10	5	5	5	25
6. Telecommunication	5	5	5	5	20
7. Others	--	--	--	--	-0-
Total Office Expenses (1-7)	210	205	215	340	970
8. Networking Technologies	1,350	--	--	--	1,350
9. Other Capital Expenditures	50	--	--	--	50
Total Capital Expndr (8-9)	1,400	--	--	--	1,400
Web Site Functionality	100	200	600	600	1,500
Digital Streaming Content	500	500	500	500	2,000
Others	--	--	--	130	130
Tot Fixed Expenses	\$ 2,210	\$ 905	\$ 1,315	\$ 1,570	\$ 6,000

General & Administrative / Technology & Content Expenses Worksheet (In Thousands, Fiscal 2002)					
Description	Q1	Q2	Q3	Q4	Yr Total
1. Officer Salaries	\$ 200	\$ 200	\$ 300	\$ 300	\$ 1,000
2. Payroll Benefit (@ 25%)	50	50	75	75	250
3. Financial Auditing	20	20	30	30	100
4. Rent & Utilities	50	50	50	50	200
5. Office Supplies	5	5	5	5	20
6. Telecommunication	5	5	5	5	20
7. Others	10	--	--	--	10
Total Office Expenses (1-7)	340	330	465	465	1,600
8. Networking Technologies	1,350	--	--	--	1,350
9. Other Capital Expenditures	50	--	--	--	50
Total Capital Expndr (8-9)	1,400	--	--	--	1,400
Web Site Functionality	500	500	500	500	2,000
Digital Streaming Content	500	500	500	500	2,000
Others	--	--	--	-0-	-0-
Tot Fixed Expenses	\$ 2,740	\$ 1,330	\$ 1,465	\$ 1,465	\$ 7,000

General & Administrative / Technology & Content Expenses Worksheet (In Thousands, Fiscal 2003)					
Description	Q1	Q2	Q3	Q4	Yr Total
1. Officer Salaries	\$ 300	\$ 300	\$ 300	\$ 300	\$ 1,200
2. Payroll Benefit (@ 25%)	75	75	75	75	300
3. Financial Auditing	20	20	30	30	100
4. Rent & Utilities	50	50	50	50	200
5. Office Supplies	5	5	5	5	20
6. Telecommunication	5	5	5	5	20
7. Others	10	--	--	--	10
Total Office Expenses (1-7)	465	455	465	465	1,850
8. Networking Technologies	1,350	--	--	--	1,350
9. Other Capital Expenditures	50	--	--	--	50
Total Capital Expndr (8-9)	1,400	--	--	--	1,400
Web Site Functionality	500	500	250	250	1,500
Digital Streaming Content	500	500	1,000	1,000	3,000
Others	--	--	--	250	250
Tot Fixed Expenses	\$ 2,865	\$ 1,455	\$ 1,715	\$ 1,965	\$ 8,000

Education

- 05/1995 Ph.D. in Physics, Johns Hopkins University, Baltimore, MD.
05/1990 M.A. in Physics, Johns Hopkins University, Baltimore, MD.
08/1988 M.S. in Physics, Southeastern Massachusetts Univ., North Dartmouth, MA.

Skill Summary

I. General Management:

Excellent business forecasting and planning skills; - Strong in leadership, vision, and commitment; Skilled in resource allocation, job structuring, and implementing corporate plan / programs; - Superior analytical skills, special talent for innovatively solving practical problems; - Diverse business and technical experience, proven exceptional ability of quickly acquiring new concepts and information technologies;

II. Intellectual Property Management:

Skilled in preparing and negotiating Licensing Agreement / Contract, Superior knowledge of Rules, Practice, and Procedure of USPTO (U.S. Patent and Trademark Office) and Intellectual Property Law, Effective in drafting Patent Claims, combined with a creative talent for using them to best advantage and with commitment to high ethical standards.

III. Other Skills

- ① Superior knowledge of web-development and information technologies, including ASP (Active Server Page), JavaScript, Visual Basic, VB Script, Style Sheet, JSP (Java Server Page), HTML/dHTML, SQL (Structured Query Language), C++ , Java, Java Servlets, ADO (ActiveX Data Object), Relational DataBase Architecture, JDBC (Java DataBase Connectivity), ODBC (Open DataBase Connectivity), and MS SQL Server 7.0 ;
- ② Proficient in computer operation, including Window, UNIX, MS-Office, WordPerfect, NT, CAD, FrontPageExpress, IIS, FTP, Telnet, etc.

Working Experience

1999-Present Owner / Operator - SMA-II Design and Web Hosting.

- ① Developed the entire web site from scratch, including: ☆ Web-page layout design using HTML coding, ☆ ASP, SQL, VBScript and JavaScript programming for implementing web interactivity such as accessing Database tables (Note: initial design of the web pages was intended for an IIS/NT server; The site is currently hosted on a UNIX server which does not support ASP), ☆ Java Applet implementation, ☆ Creating and editing the entire textual content, ☆ Graphic designs, and ☆ Search Engine Promotion.
- ② Accustomed to the FreeBSD and Apache server system of parent hosting-service provider - Pair Network, including: ☆ configuring automatic e-mail reply / forwarding services and account directory access options; ☆ implementation of system CGI, SSL (Secure Sockets Layer), and SSI (Server Side Include); and ☆ setting up of directory password protection, automatic job execution, and web-log processing for site-traffic analysis.
- ③ Prepared the "Disclaimer" and "Privacy Policy" statements of the web site.

1996-98 Owner / Operator - SMA International, Inc.

- ❶ Developed a comprehensive Business Plan (for seeking equity capital from Venture Capitalists), including ♦ Organizational Plan (♦ description of business, ♦ products and services, ♦ legal structure, ♦ production and operation plan, ♦ management and personnel); ♦ Marketing Plan (♦ market analysis and sales projection, ♦ market mix and marketing strategy); ♦ Financial Documents (♦ fund dispersal statement, ♦ break-even analysis, ♦ cash-to-be-paid-out statement, ♦ sources of cash statement, ♦ income projection statement, ♦ pro-forma cash flow statement, etc.);
- ❷ Created five patent-pending inventions (as listed at the Publication sections of the resume), prepared Specification and Drawing sections for most of the patent applications, drafted Claims for all of the applications, successfully conducted prosecution for some of the applications.
- ❸ Drafted "Confidentiality Agreement" for disclosing technical data to several clients;
- ❹ Prepared "License Agreement" for licensing intellectual properties to RACINE Steel Casting (the parties did not reach a final agreement).

1995-96 Director of Research & Development - Hydrodynamics Corporation

- ❶ Initiated ISO-9000 quality-control program and developed Corporation Quality Manual, which includes: ♦ quality policy, ♦ authorization, ♦ corp introduction, ♦ management responsibility, ♦ quality system, ♦ contract review, ♦ design control, ♦ document and data control, ♦ purchasing, ♦ control of customer supplied product, ♦ product identification and traceability, ♦ process control, etc.
- ❷ Prepared a comprehensive Proposal for obtaining federal funding from DOE's NICE3 program for supporting R&D. The proposal includes: ♦ industry letter of commitment, ♦ application narrative, ♦ required technical data and forms, ♦ milestone, ♦ budget information, etc.
- ❸ Conducted product research, developed a magneto-chemical theory to provide, for the first time in last fifty years, appropriate scientific explanation of microscopic mechanism behind the company's hard-water scale-control products.

1988-95 Research Assistant / Graduate Student -The Johns Hopkins University

- ❶ Successfully built a cold neutron spectrometer device (Analyzer) at NIST, and created computer control software program with an unique idea to optimize the instrument configuration.
- ❷ Successfully conducted the project of "1-D AF Systems at Very Low Temp" (which resulted in research grant from NSF): ♦ made the major breakthrough by growing large single-crystal chemical samples; ♦ obtained one of the most important results from rigorous data and instrument analysis using computer simulation; ♦ discovered, for the first time, a practical 1-D spin frustration system, HCC, which has substantial theoretical interest.

Work History

1999-present Owner / Operator, SMA-II Design and Web Hosting, Arlington, TX.

1998-99 Instructor, ITT Technical Institute, Garland, TX.

1996-98 Owner / Operator, SMA International, Inc. (Intellectual Properties), Arlington, TX.

1995-96 Director of Research & Development, Hydrodynamics Corporation, Arlington, TX.

1988-95 TA / RA / Graduate Student, The Johns Hopkins Univ, Baltimore, MD.
1986-88 TA / RA / Graduate Student, Southeastern Massachusetts Univ., N. Dartmouth, MA.

Publications-I (Scientific Research)

- ❶ Shalong Maa, Daniel H. Reich, Collin Broholm, B. J. Sternlieb, and R. W. Erwin, "Spin Correlation at Finite Temperature in a S=1 One-Dimensional Anti-Ferromagnet" Physical review B, Vol 51(5), 3289 (1995).
- ❷ Shalong Maa, Collin Broholm, Daniel H. Reich, B. J. Sternlieb, and R. W. Erwin, "Dominance of Long-lived Excitation in Antiferromagnetic Spin-1 Chain NENP" ; Physical Review Letter, Vol 69, 3571 (1992).
- ❸ Robert H. Caverly and Shalong Maa, "Non-linear Stored Charge vs d.c. Bias-Current Relationship under High-Level Injection in PIN diodes" Solid-State Electronics, Vol. 32, No. 4, 329 (1989).
- ❹ Shalong Maa, Ph.D. Dissertation, "Excitations and Correlation in One-Dimensional Heisenberg Antiferromagnetic System", Dissertation Abstracts International (or UMI), Order Number DA9533292.

Publications-II (Inventions / Patent Applications)

- ❶ Shalong Maa, "Non-Stop Rapid Railway Transport System"; Provisional Patent Applications ["PPAs"] were filed August 12, 1996 (Application Serial Number ["AS No."]- 60/023,755) and February 10, 1997 (AS No.- 60/037,509); Regular Patent Application ["RPA"] was filed August 13, 1997 (AS No. - 08/910,164); Current Status - The Office requests further limitation to the originally presented CLAIMS.
- ❷ Shalong Maa, "Multi-Function Abdominal Exercise Devices"; PPA was filed August 5, 1996 (AS No.- 60/023,188); RPA was filed August 5, 1997 (AS No.- 08/906,355); Current Status - most of the Claims are accepted by the Office, the patent will be issued, waiting for formal drawings.
- ❸ Shalong Maa, "Computer-Controlled Learning System With Interactive Keyboard"; PPA was filed August 19, 1996 (AS No.- 60/023,578); RPA was filed August 19, 1997 (AS No.- 08/914,688); Current Status - all Claims were rejected by the Office, the application has been abandoned.
- ❹ Shalong Maa, "Coupling Devices For Railway Cars" ; PPAs were filed on April 25, 1997 (AS No.- 60/044,193), July 28, 1997 (AS No.- 60/054,031), September 18, 1997 (AS No.- 60/059,674), and on October 06, 1997 (AS No.- 60/061,006); RPA was filed April 23, 1998 (AS No.- 09/065,808); Current Status - There has been no Office Action from USPTO.
- ❺ Shalong Maa, "Apparatus and Methods for Automatic Control of Railroad Cars"; PPA was filed December 8, 1997 (AS No. - 60/069,131); Current Status - the PPA has been abandoned.
- ❻ Shalong Maa , "Computer-Cntrlled T. Fig. Toy with Animated Features" ; PPA was filed April 5, 1996 (AS No. - 60/014,905). RPA was filed April 4, 1997 (AS No.- 08/833,342); Current Status - Continuation Prosecution Application has been filed, waiting for second Office Action therefore from USPTO (U.S. Patent and Trademark Office)
- ❼ Shalong Maa, "Rail Car Coupler" ; PPA was filed February 27, 1998 (AS No.- 60/076,288); RPA was filed February 26, 1999 (AS No.- 09/259,188); Current Status - There has been no Office Action from USPTO.

/3X
8-85)

FILING RECEIPT



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APPLICATION NUMBER	FILING DATE	GRP ART UNIT	FIL FEE REC'D	ATTORNEY DOCKET NO.	DRWGS	TOT CL	IND CL
08/833,342	04/04/97	2512	\$579.00	3807.2US	5	34	4

MARC A. HUBBARD
MUNSCH HARDT KOPF HARR & DINAN
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DALLAS TX 75202

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Receipt is acknowledged of this nonprovisional Patent Application. It will be considered in its order and you will be notified as to the results of the examination. Be sure to provide the U.S. APPLICATION NUMBER, FILING DATE, NAME OF APPLICANT, and TITLE OF INVENTION when inquiring about this application. Fees transmitted by check or draft are subject to collection. Please verify the accuracy of the data presented on this receipt. If an error is noted on this Filing Receipt, please write to the Application Processing Division's Customer Correction Branch within 10 days of receipt. Please provide a copy of the Filing Receipt with the changes noted thereon.

Applicant(s)

SHALONG MAA, ARLINGTON, TX.

CONTINUING DATA AS CLAIMED BY APPLICANT-
PROVISIONAL APPLICATION NO. 60/014,905 04/05/96

FOREIGN FILING LICENSE GRANTED 08/18/97

* SMALL ENTITY *

TITLE

COMPUTER-CONTROLLED TALKING FIGURE TOY WITH ANIMATED FEATURES

PRELIMINARY CLASS: 369

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EXHIBIT A

M.H.

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PTO/SB/122 (10-00)

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Application Number

08/833,342

Filing Date

04/04/1997

First Named Inventor

MAA, SHALONG

Group Art Unit

3721/3713

Examiner Name

J. PARADISO

Attorney Docket Number

N/A

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Applicant/Inventor.

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Assignee of record of the entire interest.

Statement under 37 CFR 3.73(b) is enclosed. (Form PTO/SB/96).

☐

Attorney or Agent of record.

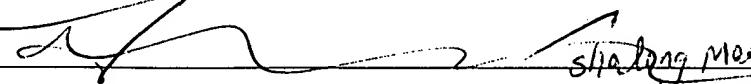
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Registered practitioner named in the application transmittal letter in an application without an executed oath or declaration. See 37 CFR 1.33(a)(1). Registration Number _____

Typed or Printed
Name

MAA, SHALONG

Signature



Date

04/20/2001

NOTE: Signatures of all the inventors or assignees of record of the entire interest or their representative(s) are required. Submit multiple forms if more than one signature is required, see below.

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EXHIBIT B